

D7.2:DELM

Defense Logistics Agency

*America's Combat Support Agency*

# DLA

AROUND THE CLOCK

*Around the World*

*Doing Whatever it Takes to Support*

*Peacetime Readiness, Contingency*

*Operations, and Wartime*

*Preparedness at Least Cost*

*Reinvention Journal...  
State of the Agency*

# DLA's Corporate Vision

- Logistics readiness and weapon system acquisition at greatly reduced cost ... returning resources to the warfighter
- Supplier of choice to the warfighter
- Contract manager of choice to the Program Manager
- Radical improvement in quality, affordability, responsiveness

## Mission Highlights

DLA's mission is to provide materiel support and contract administration services worldwide, primarily for military forces and other selected federal activities. DLA is a big business ... we would rank 62nd in the Fortune 500 ... with a major impact on our customers' ability to achieve their operational goals at minimum cost:

- 32,000 materiel support customers
- 4 million items managed
  - Over \$11 billion annual sales
  - 22 million annual customer orders
  - 12,000 supporting contractors
  - \$9 billion supply support inventory (including War Reserves and other combat contingency stocks)
- \$6 billion stockpile of defense-critical production materials
- Reuse and marketing of \$24 billion of DoD property
- 14 million parts cataloged — with 27 million engineering drawings
- 24 distribution depots
  - 568 million cubic feet of storage
  - 31 million annual transactions
  - \$106 billion materiel warehoused
- \$910 billion contracts administered for DoD and 20 other Federal Agencies
  - 24,000 contractors
  - 377,000 contracts managed

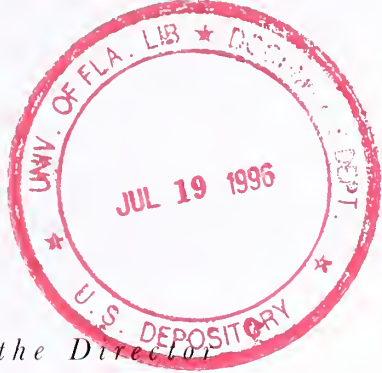
## Performance Highlights

DLA is committed to strong performance while returning resources to the warfighters, peacekeepers, and taxpayers:

- Logistics Response Time improved 33% in 1995
- Materiel support rate stabilized above 85% goal while inventories reduced 31% in three years
- Over-aged contracts reduced 23% in 1995
- Customer reports of quality defects down 42% in three years
- Staffing reduced 23% in three years ... over 40% by 2001
- Over \$2 billion in materiel savings/cost avoidances in the past three years
  - With over \$8 billion more expected for Fiscal Years 1996-2001
- Over \$9 billion in contract administration savings and cost avoidances in the past three years
  - With over \$18 billion more expected for Fiscal Years 1996-2001

## Table of Contents

Message from the Director	1
What Does it Take to Defend America?	2
Carrying Out the Mission	6
America At Peace Must Never be America At Risk	
Whatever is Needed, Wherever it's Required	
Lean but Prepared	
The Year in Review	16
Springboards to Better Performance	24
Combining the Strengths of Government and Business	
Partnerships with Customers and Industry	
What's Ahead for DLA	34
Performance Data	A-1
Financial Summary	A-2



## *A Message from the Director*

*The State of the Agency ...1995*

For over 30 years the Defense Logistics Agency (DLA) has provided logistics support to the Department of Defense (DoD) and numerous non-DoD agencies. Employing 51,000 military and civilian personnel, we are a full partner with the Military Services, helping end the Cold War and keeping our forces continuously ready for any potential combat scenario. We also play a major role in humanitarian relief throughout the world. As indicated on the opposite page, DLA is a high volume, readiness-oriented business. Our customers, suppliers, overseers, and employees all have a strong interest in how well we perform today, and how we are preparing ourselves to do even better in the years ahead. Thus the purpose of this Journal is to highlight our results in 1995 and our intentions for the future.

*I am very proud of DLA's accomplishments in 1995* — particularly in the areas of readiness support, progress on Agency initiatives, and continued innovative approaches that are preparing us to meet future challenges. We are enhancing day-to-day performance and helping to save billions of dollars every year by reengineering our business processes, empowering our employees, and continually focusing on customer satisfaction. As a result, in 1995 we improved our logistics response time by 33% while reducing quality defects by 16% ... provided strong materiel availability for key weapon systems and increased our “hands on” role alongside deployed forces ... continued to cut staffing and inventories (down 23% and 31% respectively in the last three years) ... achieved savings and cost avoidances of over \$3 billion in contract administration ... and aggressively pursued initiatives which will constrain materiel prices to our customers by 22% below expected inflation rates by Fiscal Year 2001 and are thus expected to provide savings and cost avoidances exceeding \$8 billion during the six year planning horizon. Our success in revolutionizing logistics support has been recognized in many ways, including the recent designation of DLA's Defense Personnel Support Center as one of the first two DoD activities to receive the Ford Foundation's prestigious “Innovations in American Government” award, and our receipt of the Joint Meritorious Unit Award from DoD for our Agency-wide accomplishments over the past two years.



Clearly DLA cannot succeed in isolation. We must understand and work in partnership with customers and suppliers. And just like the top companies in industry, we must continually reinvent ourselves to use emerging technology and the best practices of both the public and private sectors to find ways to run better and leaner. This includes outsourcing (“privatizing”) functions when it is the best value approach to meet our customers’ needs. But DLA must do even more. We must provide responsive, high-quality support, achieve significant savings for our customers and the taxpayers, *and* ensure our actions never put American Forces at risk in an unpredictable world. That is why during peacetime, combat operations, contingency support, and natural disasters, America always receives a 100% commitment from DLA. Our personnel are on the front lines “Around the Clock, Around the World” as the “Provider of Choice” for materiel support and contract administration.

I assure you that this Agency and its very talented and dedicated workforce will do whatever it takes to support our nation's Warfighters and Peacekeepers, and our many non-DoD customers as well. Our vision is to provide radically improved support of logistics readiness and weapons systems acquisition at greatly reduced cost. It guides everything we do. It is our **commitment**, and we *will* succeed.

Edward M. Straw  
Vice Admiral, SC, USN  
Director, DLA



## What Does it Take to Defend America?

Political mandates. Military operations. Emergency relief. It takes grand-scale logistics to defend America's interests and commitments around the world. That's why at DLA, no matter what's promised or needed, it's our job to make it happen. We're quietly at work behind the scenes, doing *whatever it takes* to help put equipment, weapon systems, services and supplies wherever they're needed — on the shortest notice, anywhere in the world and at the lowest possible cost.

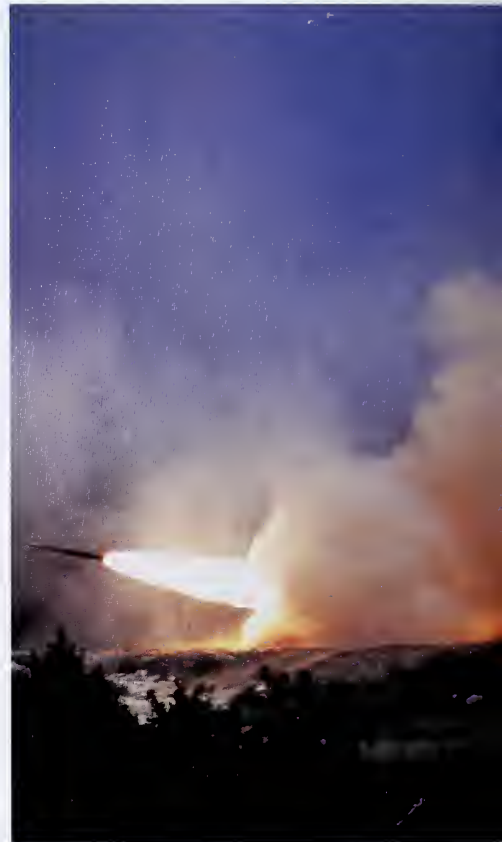
Deployment of vital resources worldwide and dedicated service to the American people have always been the hallmarks of the Department of Defense and our Military Services. Since DLA's inception in 1961 as the Defense Supply Agency, this commitment has also been the hallmark of DLA. In the succeeding three decades, the Military and America itself have been transformed by new technologies and economic and political realities. Business process reengineering has become a critical factor in capitalizing on new capabilities and meeting today's challenges.

By the early 1990's, it was apparent that the Agency would have to become a more dynamic, fast-moving contributor to DoD's efforts to maintain or improve military readiness while significantly reducing costs. Thus DLA embarked on a total organizational restructuring designed to effect a complete change in our culture ... in essence we decided to reinvent DLA. Through this reinvention and commitment to the four principles of Vice President Gore's National Performance

Review (NPR), "cutting red tape, putting customers first, empowering employees to get results, and getting back to basics," DLA has accomplished significant milestones ... on the way to further progress. DLA reengineered itself and 1995 was a watershed year for both change and manifested results. DLA made great strides in its responsiveness to America's changing needs. By combining new resources with skills that make the Agency a superb combat support team — and the Military's preferred supplier of goods and services — DLA is operating on a competitive basis like America's best-run commercial entities. Today DLA is one of the most "business-like" and customer oriented organizations in the Federal Government.

### **DLA: Using Business Methodology to Improve Service**

DLA's Defense Personnel Support Center (DPSC) in Philadelphia, Pennsylvania, initiated a "National Defense on the Offense" program to



reengineer and improve its business processes in support of military and humanitarian operations. The program linked electronic data transmission, shared product teams, and "prime vendor" strategies to improve customer support. The Ford Foundation and the Harvard University John F. Kennedy School of Government recognized DPSC's excellence by naming them a 1995 Innovations in American Government award winner — the first year that Federal Agencies were eligible to compete.

Defense Contract Management Area Operations (DCMAO) Garden City, selected in 1995 as a finalist for the 1996 Presidential Award for Quality, provides contract administration, personnel, and logistics support during the acquisition of advanced systems and equipment worldwide. Two



particular areas have become benchmarking standards for the Command: improved delivery forecasting (improving from 30% coverage in 1990 to 90% currently), and reduced process time for contract closeout (increasing the customers' ability to reprogram monies for new procurements which otherwise might be lost).

But DLA is not in business. We're in service: to the Military, to the Government, to our Allies, and to individual American warfighters and taxpayers. It is our mission to apply the best strategies for moving information and materiel, driving down prices, increasing customer satisfaction, cutting red tape, and rightsizing our staff — goals we share with today's most successful corporations. Unlike those corporations, however, the degree of success we have in

meeting these goals doesn't affect just a relatively small pool of executives, employees, and shareholders. We operate with higher stakes because every initiative we undertake has a direct financial and social impact on every American and on people who rely on U.S. strength and support worldwide.

That's why DLA is continuing to move so aggressively to leverage our tremendous buying power, information brokering, and world-class logistics capabilities into "next-century readiness." Our mission is never static, but continues to shift in response to changes evolving in technology, the markets, the Military, and national priorities.

**DLA doesn't appear in the headlines. Instead, it works behind the headlines every day — doing whatever it takes, in peace or combat. For example, DLA purchased millions of Humanitarian Daily Rations (HDRs) which were provided to Bosnia for several years prior to the Dayton Accord. In Somalia, DLA contract administrators remained in-country after U.S. military forces departed, in order to close out existing contracts and support U.N. representatives. In December 1995, DLA sent the first of over 90 personnel expected to be on-scene in or near Bosnia-Herzegovina.**



# Customer Service







## Carrying Out the Mission

DLA is responsible for providing a major portion of the worldwide logistics support and services that are vital to the Military Services in meeting the war-fighting needs of the nation. We accomplish this in two broad mission areas: materiel management, described in the first four columns to the right, and contract management (also known as acquisition).



**SUPPLY MANAGEMENT:**

DLA's six inventory control points (ICPs) manage and purchase goods needed to support combat operations, combat preparedness, and humanitarian aid. During 1995, this included:

- all food, fuel, medical supplies, and clothing
- 4 million consumable spare and repair parts (an increase now representing 86% of the DoD total)
- support for over 1,400 weapons systems
- processing approximately 22 million requisitions
- sales exceeding \$11 billion.

DLA manages the National Defense Stockpile which, during 1995, was valued at \$6 billion. Management of the National Defense Stockpile requires continual assessment of factors that include:

- capabilities of the U.S. industrial base
- modification of the Supply Chain
- acquisition strategy risk
- impact of mergers, acquisitions, and foreign investment
- range and volume of materiel needed for Services and Joint Chiefs of Staff support
- non-disruption to the worldwide commodity market.



**DISTRIBUTION:**

DLA's 24 distribution depots coordinate and oversee the warehousing and distribution of materiel that is owned by DLA and the Military Services. In 1995, this included efforts such as:

- managing a \$1.4 billion budget
- operation of 568 million cubic feet of storable space
- coordination of 31 million transactions involving receipt, issue, and shipment of materiel.

Besides providing delivery of materials from its warehouses to on-base or nearby customer sites such as ships, posts, and repair facilities, DLA also contracts with a variety of commercial sources to transport items from vendors or DLA's own warehouses direct to customers worldwide. This includes a "Premium Services" contractor who can fly low volume but readiness-critical items from a central location in the U.S. anywhere in the continental U.S. within 24 hours, and anywhere in the world within 48 hours.





### REUTILIZATION AND MARKETING:

DLA's Defense Reutilization and Marketing Service (DRMS), headquartered in Battle Creek, MI, operates over 180 sites around the world which manage the reutilization, transfer, donation, and sale of military personal property no longer needed for the national defense. This operation has the goal of maximizing the financial return on the taxpayers' initial investment, and protecting both valuable natural resources and the environment. In 1995, DRMS received excess DoD property with an acquisition value of \$24 billion. This property was redistributed to avoid new procurement costs or was sold to the public to completely offset DRMS' operating expenses and to return tax dollars to the U.S. taxpayer. Redistribution was accomplished through:

- reuse somewhere within DoD
- transfer to another U.S. Government agency — thereby saving taxpayers the cost of procuring the property
- donation to support America's commitment to humanitarian relief, and to the work of national and international non-profit organizations
- Foreign Military Sales (FMS)
- recovery of the value of precious metals contained in the items
- sales of remaining items to the general public.



### LOGISTICS INFORMATION MANAGEMENT SUPPORT:

DLA's Defense Logistics Services Center (DLSC) manages the Federal Catalog System, which includes:

- 6 million active items used by DoD, Federal Civil agencies, foreign governments, and international organizations
- 8 million inactive item records
- 27 million engineering drawings.

The DLA Systems Design Center maintains and selectively enhances information system applications in support of DLA's major missions. DLA also utilizes a broad array of mini/personal computers to manage funds and enhance daily operations. However, for its mainframe computer processing needs, DLA is a customer of DoD's Defense Information System Agency (DISA). In a similar manner, DLA is a customer of DoD's Defense Finance and Accounting Service (DFAS), for its accounting system support.

DLA operates DoD's Defense Automatic Addressing Systems Center (DAASC) which is a continuous 24-hour value-added logistics network processing facility designed to support Military Services and Defense/civil agencies worldwide. DAASC processes an average of 3 to 5 million transactions daily which are available for DoD logisticians to query on-line.



### CONTRACT MANAGEMENT:

DLA's Defense Contract Management Command (DCMC), its three Districts, and its International Office, provide worldwide Contract Administration Services (CAS) in support of the Military Services, the National Aeronautics and Space Administration, and other Federal Agencies, foreign governments and international organizations. In 1995, DCMC managed 377,000 active contracts valued at \$910 billion, involving 24,100 contractors. DCMC responsibilities and services encompass over 67 functions, and include:

- planning and acquisition
- contractor capability and proposal review
- program and technical support
- in-plant production surveillance and quality assurance
- contractor property management surveys
- negotiation of contract modifications
- contract closeout
- participation in acquisition streamlining panels and source selection panels.

# America at Peace Must Never be America at Risk

DLA is committed to making cost savings and efficiencies that rival today's entrepreneurial businesses despite the fact that DLA will never be a "for profit" company. Instead, it will remain a "for the people" Agency, dedicated to seeing that support of American warfighters' technology, supplies, and weapons is never allowed to become outmoded or to fall into disrepair.



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## A Milestone Year In A Long History Of Service To America

- Oct 61** Defense Supply Agency (DSA) established
- Jan 62** Eight single-manager military agencies became DSA supply centers
- Apr 73** DSA assigned responsibility for overseas wholesale food and bulk fuel
- Jan 77** DSA redesignated as Defense Logistics Agency (DLA) in recognition of broadened mission responsibilities
- Oct 86** Goldwater Nichols DoD Reorganization Act of 1986 identified DLA as a combat support agency and required that the selection of the Director of DLA be approved by the Chairman of the Joint Chiefs of Staff
- Jul 88** DLA is assigned management of the National Defense Stockpile
- Nov 89** Decision made to transfer 1 million consumable items from the Military Services to DLA. The completion of this transfer in the late 1990s will bring DLA's

total consumable items managed to over 4 million. During FY 94, DLA received 179,000 items from the Military Services

- Feb 90** The Defense Contract Management Command (DCMC) established as a DLA Command responsible for providing worldwide contract administration services to the Military Services. Responsibility for contracts covering shipbuilding and ammunition plants was retained by the Military Services
- Jun 90** The Military Services' responsibility (5,400 personnel and 100,000 contracts valued at \$400 billion) for managing the majority of weapons systems contracts was transferred to DCMC
- Aug 90** Defense Contract Management Regions (DCMRs) Atlanta, Boston, Chicago, Los Angeles, and Philadelphia redesignated as Defense Contract Management Districts (DCMDs) South, Northeast, North Central, West, and Mid Atlantic, respectively; DCMRs Cleveland, Dallas, New York, and St. Louis disestablished
- Aug 90** Operation Desert Shield commences. During Desert Shield and the subsequent Desert Storm combat operations, DLA provided the Military Services with over

\$2.9 billion of food, clothing, textiles, medicines, medical items, and repair parts

- Oct 90** Defense Contract Management Command International established at Wright Patterson Air Force Base
- Apr 91** Operation Provide Comfort – DLA provided over \$68 million of food, clothing, textiles and medical supplies to support a major land and air relief operation designed to aid refugees—mostly Kurds in Iraq
- Mar 92** DLA assigned DoD-wide responsibility for the management of the wholesale supply distribution system, consisting of 30 depots at 32 sites with 62 storage locations which store over 8.7 million spare parts, subsistence, and other consumable items worth \$127 billion in 788 million square feet of storage capacity. As a result of this change, DLA also warehouses major end items for the Military Services
- Mar 93** DLA reengineered its Headquarters to form integrated business units for Supply Management, Distribution, and Contract Management. Span of control altered from 42 organizations reporting directly to the Director to 6 direct-reporters



Every day, thousands of DLA civilian and military personnel act on their own personal commitment to do "whatever it takes" to meet our customers' needs in the most efficient manner. DLA's commitment reaches around the globe, at over 300 sites:

- Supply Centers ... also known as Inventory Control Points (ICPs)
- Distribution depots
- Reutilization and marketing offices
- Fuel storage facilities
- Stockpile storage locations
- Logistics services centers
- Contract Management Area Operations
- Contract or plant representative offices
- Contractor-in-plant residencies

From these operational sites, DLA personnel catalog, procure, distribute, and monitor supplies and manage contracts that support the Military Services, the Department of Defense, other Federal agencies, state and local governments, friendly foreign governments, international organizations, contractors, and the general public.



**DLA's commitment reaches around the globe, supported by 51,000 DLA employees at strategic locations worldwide.**

- |  |   |  |
|--|---|--|
| <p><b>Mar 93</b> DLA recommended realignment or closure of 1D activities for Base Realignment and Closure (BRAC) 93 which will result in savings of \$693 million and 2,600 personnel</p>  | <p><b>Mar 95</b> DLA recommended 9 contract management districts, depots, and ICPs for closure/realignment via BRAC 95; subsequent decisions will result in saving \$1.4 billion net present value (NPV) and 2,300 personnel</p>  | <p>be reinvested into process reengineering at DPSC</p>  |
| <p><b>May 94</b> DCOM Mid Atlantic and DCOM North Central disestablished</p>   | <p><b>Mar 95</b> Support provided by a 13-member DCST to the Multi-National Forces in Haiti was transitioned to support the United Nations Mission in Haiti (UNMIH)</p>   | <p><b>Oct 95</b> DLA supported relief efforts following the devastation of Hurricane Marilyn in the U.S. Virgin Islands. DLA's DCST coordinated the inland distribution of relief supplies for the Federal Emergency Management Agency (FEMA) and DoD</p>  |
| <p><b>Jul 94</b> DLA, through its future budget estimating process, offered \$5.5 billion savings to the warfighter from Fiscal Year (FY) 1996 through FY 2001</p>   | <p><b>Jul 95</b> DLA began planning support of U.S. peace-keeping operations in Bosnia</p>  | <p><b>Nov 95</b> DLA published second edition of "Environmental Products" Catalog that lists 483 environmentally preferred items — from citrus-based degreasers to complete antifreeze recycling systems</p>   |
| <p><b>Jul 94</b> On July 14, 1994, DLA, along with other DoD components and Federal Agencies, signed an historic joint Federal Agreement to work together mutually in support of the Chesapeake Bay Program to preserve the quality of the Bay's waters and life forms</p> | <p><b>Sep 95</b> Defense Distribution Depot Charleston (DDCS), Defense Distribution Depot Oakland (DDOC), and the Tooele Facility, Defense Distribution Depot Ogden, Utah (DDOU) disestablished</p>   | <p><b>Nov 95</b> DLA launched \$1 billion project to replace DoD's cache of aging procurement programs with a DoD-wide standard automated procurement system which supports electronic commerce. The Standard Procurement System (SPS) will replace nine major systems currently in use and support buys of all sizes, ranging from base-level purchases to major systems procurements</p> |
| <p><b>Oct 94</b> DLA deployed to Haiti and established a DLA Contingency Support Team (DCST)</p>   | <p><b>Oct 95</b> DPSC won the 1995 Innovations in American Government Award from the Ford Foundation and the John F. Kennedy School of Government at Harvard University for its business process reengineering that continues to improve performance. Federal government agencies were first eligible in 1995, and DPSC was one of only two DoD winners. Vice President Gore presented the \$100,000 award which will</p> | <p><b>Dec 95</b> Initial cadre of DLA DCST personnel deploys for operations in support of the Dayton Accord for Bosnia-Herzegovina</p>   |
| <p><b>Nov 94</b> DLA successfully prototyped Automated Manifest System (AMS) in Somalia (then to be followed later in Haiti, then Korea, then in Bosnia)</p>   |   |  |
| <p><b>Nov 94</b> Consumable Item Transfer (CIT) Phase I completed; 764,000 items were transferred to DLA for centralized management</p>  |   |  |

## Whatever is Needed, Wherever it's Required



**DLA provides a vast variety of supplies and services.**

DLA procures and distributes food, medical supplies, clothing, vehicles, weapons systems, computer equipment, tools, heavy equipment, and spare parts to Military Service activities around the world.

**DLA creates cross-industry, cross-agency partnerships to coordinate procurement and distribution.**

DLA interfaces with a wide range of industries such as transportation, manufacturing, pharmaceuticals, and agriculture to meet the needs of a wide range of customers that include the Department of Defense; the Military Services; Federal, state, local, and foreign governments; and international organizations.



**DLA 1995:  
ONE POINT OF CONTACT FOR  
START-TO-FINISH LOGISTICS SUPPORT**

- Managed 3.8 million consumable items
- Procured 86% of all Department of Defense consumables
- Bought spares for 1,400 weapons systems
- Administered contracts valued at \$910 billion
- Administered contracts with 24,100 contractors
- Achieved annual sales of over \$11 billion
- Conducted distribution services for 31 million transactions
- Managed a \$6 billion national stockpile of defense material
- Supported military and humanitarian operations inside the continental United States and in 20 countries overseas
- Reutilized, transferred, donated, sold, or otherwise disposed of items whose original acquisition value was \$24 billion
- Managed the Federal Catalog System consisting of 6 million items



**OPTIMIZED RESPONSIVENESS  
AND INVENTORY  
INFRASTRUCTURE**

During 1995, DLA refined its stock positioning approach. More of those items with highly predictable demand were placed closest to the customer, while items with a less predictable demand were stocked centrally. This improves response time in support of key DoD operational and maintenance commands.

DLA handles combat support logistics on a grand scale.

The scale of logistics operations conducted by DLA is massive. During Operations Desert Shield/Storm in 1990/91 the Agency shipped enough food to support 2 million meals each day. More recently, troops headquartered in Mogadishu, Somalia, processed 500-600 major shipment receipts a day for distribution to troops throughout Somalia. These receipts represented basic supplies and state-of-the-art materiel for which DLA managed procurement, packaging, shipment, and tracking from locations worldwide.

Despite the volume, DLA delivers with precision.

The challenge is not only procuring the right materiel, but also moving it around the world, often to meet small windows of opportunity for connecting with troops on the move.

And DLA strives for both effectiveness *and* efficiency. DLA continued its aggressive efforts to establish Direct Vendor Delivery (DVD) sources of supply for many frequently-used commercially available items, such as vehicle parts, steel, and pharmaceuticals (the latter via a form of DVD called "Prime Vendor"). DVD provides a means to

reduce inventory and related warehousing costs while offering high quality, responsive and affordable customer service directly from private sector vendors.

What would be the cost of being unprepared? Every day, every effort at DLA is focused on the laser-thin line between being “lean” and being unprepared. It’s DLA’s job to provide outstanding support at least cost while helping to ensure America never knows the cost of being unprepared.



**Materiel placed next to the customer also reduces overlapping retail inventories ... and optimizes distribution/transportation cost tradeoffs in support of responsiveness**

That’s why DLA has been so aggressive and unrelenting in its efforts. This resulted in continued success in 1995 with the implementation of even more new systems and strategic initiatives to buy responsiveness instead of just storing inventory. Today, DLA is strongly positioned to deliver exactly what’s needed — when it’s needed — by drawing on the best practices used in the public and private sectors and aggressively implementing them throughout the Agency.

From cost reductions and rightsizing, to laying the foundation of powerful electronic commerce (EC) and electronic data interchange (EDI) systems, the successes achieved by DLA during 1995 are making a vital difference. This is of particular importance as America enters a new era of global and political security commitments, and faces an entirely new set of challenges. Like the Military, DLA redefined itself to meet these challenges — placing greater emphasis on rapid deployment, precision accuracy, and improved results with smaller risks. For DLA, those smaller risks are defined by reducing response time, optimizing investments of taxpayer money, and holding smaller stockpiles of materiel vulnerable to spoilage, obsolescence, and deterioration.

It was DLA’s commitment to “lead the way in reengineering” that won it the distinction as the first Department of Defense pilot project under the Government Performance and Results Act (GPRA) at the start of 1994. By the end of 1995, that commitment had been translated into such solid programs and measurable achievements that many of DLA initiatives were designated as reinvention laboratories for the National Performance Review (NPR) and its supporting Defense Performance Review (DPR).

### **DLA Reinvention Activities**

- Executive information system
- Agency restructuring and streamlining
- Activity-based costing and benchmarking
- First government-wide NPR Symposium
- 20 reinvention labs in progress
- Initiatives tracking system
- NPR bulletin board
- Fee-for-service
- Regulatory relief
- Reinvention videos
- “Heroes of Reinvention” Winners



DLA's performance *has* reached far beyond the "laboratory" environment. Its streamlined infrastructure and innovative new contracting procedures were tested in the competitive real-world environment. Initiatives such as the use of direct vendor delivery and the pursuit of long-term commodity contracting contributed to DLA being able to deliver a staggering variety and quantity of materiel "around the clock and around the world," typically at below-market prices.

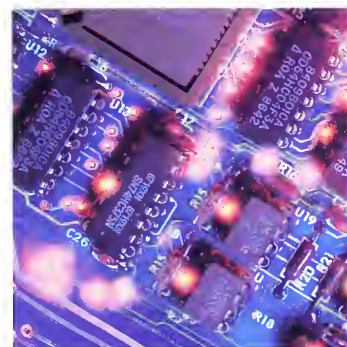
DLA met the challenge — and the expectations — of both the Military Services and the American taxpayers. DLA leveraged its buying power and logistical expertise to deliver achievements that touched every aspect of DLA operations, and permitted a steep drop in staff size and storage space required. For example, DLA has achieved a one-year reduction of \$144 million in distribution costs, and is a major contributor in pursuing DoD's goal of a 50% reduction in cycle times. This is part of an array of ways DLA is cutting costs while enhancing performance, including:

- Reduced infrastructure
- Improved inventory accuracy
- Increased quality/greater value
- Lowered cost of disposal
- Expanded role as an information broker

DLA achieved this in 1995 while maintaining the availability of the right materiel — and playing a key role in America's ability to respond promptly and effectively to even the most unpredictable needs for combat support and humanitarian aid. As a major factor, DLA's Reserves from all Services augmented DLA's lean posture in 1995, resulting in cost avoidances exceeding \$71 million when compared to the cost of hiring contractors for the extensive support services provided.



**In Somalia, DLA and the Army teamed in a successful test of in-transit visibility (ITV), a system subsequently used in Bosnia. In addition, DLA developed and implemented the direct support arrangements in Bosnia. Rather than a static "stock-pile" system, this concept is a dynamic approach that enables the Agency to buy commodities as they're needed, significantly reducing operating costs and simplifying transportation management, retrograde, and in-transit visibility.**



## DEFENSE ELECTRONICS SUPPLY CENTER







#### OFFICE OF ELECTRONIC PRODUCT TESTING CENTER

Pam Du, an electronics engineer in the Product Testing Center, assures the quality of capacitors before issuance to DESC customers.



#### OFFICE OF MARKETING

From left to right:  
MSgt. John Moye, USAF,  
Melissa Leonard, Rebecca  
Koesters, and Arlene  
Jacobsen, demonstrating  
DESC-managed products.



**In 1995, DLA was once again on the forefront of DoD's efforts to support humanitarian aid as well as military operations.**

Since its establishment in 1961, DLA's mission has grown far beyond providing food and troop support. From a small Defense Agency with a limited supply mission, DLA has expanded into a combat support agency with broader and more complex DoD-wide logistics missions. These missions are continually maturing — reflecting a contingency focus and a total reinvention of systems, structures and services.

Given these requirements, in 1995 DLA combined the “basics” of logistics excellence with the most recent management practices, including business process reengineering, rightsizing strategies, and technology support. DLA also increased its vital role as an information broker, matching needs to resources and creating a win/win relationship between the Military Services and vendors.

### THE RESPONSE TO A CHANGING FORM OF COMBAT SUPPORT

DLA has a continuing need to stay prepared for any contingency and to support humanitarian aid and Allied Forces initiatives. DLA does “whatever it takes” to support the customer. DLA makes widespread use of the “just-in-time” delivery approach that has revolutionized American business. During 1995, the revolution at DLA was at full-throttle. DLA implemented an entirely new set of priorities and procedures targeted at keeping America prepared for any contingency while reducing costly inventories of materiel that lose their value as time passes. During 1995, DLA built on efforts initiated over the past few years and:

- Awarded contracts based on “Best Value” (rather than lowest cost)
- Downsized personnel, facilities, and inventory consistent with the DoD

Force Structure Plan, budgetary constraints and best business practices

- Grew more competitive and proactive
- Instituted benchmarking of DLA processes against “best practice” public or private sector activities
- Served as a DoD pilot for the Government Performance and Results Act (GPRA)
- Expedited previously approved base closure actions, and developed sound proposals which were approved during the next round of closure deliberations
- Built results-oriented partnerships with industries
- Implemented “response-forward” inventory and “just-in-time” practices
- Instituted more flexible, innovative contracting techniques
- Moved from being primarily a custodian of items to being an international broker of goods and information



### ***DLA Contingency Support Team (DCST).***

When analyzing the theater materiel distribution process during Operation Desert Storm and during support in Somalia, a DLA team identified three primary distribution issues: *movement* of materiel from the depot to the customer; *management* of the transportation pipeline—from receipt through segregation, storage, repackaging, reutilization, and in-theater lateral redistribution; and *visibility* of materiel. To properly plan for and ultimately employ appropriate expertise in those areas, the Agency created a DLA Contingency Support Team (DCST). Agency planners have worked with all unified command staffs to tailor services to meet mobilization or wartime contingency conditions. DLA used the DCST concept successfully in Haiti, the Virgin Islands after Hurricane Marilyn, and most recently in Bosnia. It will be employed during future exercises and contingencies to enhance integration of the Agency's support of unified command contingency plans and to increase the Agency's ability to respond in a timely and appropriate manner in the areas of contract management, commodity management, distribution and property re-use and disposal.

### ***Integrated Consumable Item Support (ICIS) Model***

As part of DLA's continuing effort to better support the warfighter, DLA made significant progress in the development of the Integrated Consumable Item Support (ICIS) Model (formerly known as the Warfighting Assessment and Requirements (WAR) Model). As the Agency strives to reduce depot inventories and use commercial buying practices to reduce cost to the Services and the American taxpayer, it is imperative that DLA and the Services continue to have a viable plan for supporting the warfighter. ICIS is a high-resolution automated model capable of assessing DLA's performance against wartime scenario requirements using existing supply assets and industrial response

capability. ICIS will enable DLA to maximize its investment in dollars and industrial planning time in those items which are truly critical and cannot be procured commercially. The ICIS model will also provide a more rigorous assessment of DLA's contribution to joint readiness as reported in the Joint Monthly Readiness Review (JMRR) process coordinated by the Joint Chiefs of Staff.

### ***Materiel Management Baseline Customer Survey***

In recognition of the need to better understand the perceptions of its customers, DLA developed a corporate customer satisfaction survey. The purposes of the survey were to: (1) describe the perceptions of the various segments of DLA's market to determine specifically where customers are satisfied and where they are dissatisfied; (2) develop customer satisfaction indices which allow DLA to track customer satisfaction levels over time; and, (3) use customer satisfaction data as inputs to business process and management decisions. This survey uses the same approach as set forth in Executive Order No. 12862, Setting Customer Service Standards. The survey questionnaires were sent to 31,000 military and civilian organization customers of DLA to provide a baseline.

Thirteen customer focus group meetings were also conducted, involving 130 DLA customers. These groups identified issues customers considered important, and provided a qualitative basis for the design of the corporate survey.

The survey found that DLA customers are generally satisfied with the service provided by DLA (93% of our customers found DLA's service excellent or satisfactory). Nonetheless there were various items identified as warranting improvement. For example, the survey data reinforced management perceptions that DLA's telephone procedures for emergency needs were not user-friendly. Improvements are underway in these and other areas as a direct result

of the survey. In addition, a follow-on process is in place to obtain updated customer perceptions.

### **REDUCING THE LOGISTICS FOOTPRINT**

During 1995, DLA responded to the demand for delivering an increasingly wider variety of items within increasingly smaller windows of opportunity worldwide. DLA met this demand while at the same time reducing its "logistics footprint." A major part of this reduction was the elimination of redundancies and the realignment of operations in distribution and supply management. 1995 produced major progress on the following:

- DLA will eliminate 38 distribution facilities, managing a huge volume of throughput with 24 distribution depots
- By reducing storage capacity 42%, DLA will achieve significant operational cost savings
- Elimination of facilities also results in a personnel reduction of 35% among depot personnel
- A 37% reduction in inventory is possible because of innovative supply techniques, streamlined stock availability, geographic/strategic positioning, improved forecasting, and aggressive efforts to cull out previously useful inventories that are no longer needed by a smaller military.
- DLA is realigning its inventory control point (ICP) responsibilities to take maximum advantage of commercial sector capabilities and enhance readiness support, by implementing Base Realignment and Closure (BRAC) actions that realign/reduce six ICPs into four: one will specialize in troop and general support items... two will focus on weapons systems support ... one will support bulk fuel and other energy-related products. Actions are already in process to reassign selected Federal Supply Class (FSC) items in support of this change.

## REDUCING CYCLE TIME

During 1995, DLA used enhanced information systems and innovative contracting procedures to compress the procurement/distribution pipeline. One of the best examples of this is the new Commercial Air Line of Communication (COMALOC) system that for the same cost uses in-transit visibility, pre-cleared overseas customs, and deployed depots to deliver in four days what would take 15 days through the established system. COMALOC also enhances participation with the Civil Air Reserve Fleet.

Contract administration is another area in which DLA made important advances during 1995. Early teaming by DLA with buying command program offices resulted in significant reductions in cycle time and related costs. Examples include:

- Cut cycle time 70% on LAMPS (Light Airborne Multi-Purpose System)
- Cut cycle time by 33% on the T700 engine project

## IMPROVING AFFORDABILITY POWER BUYING AND LONG-TERM CONTRACTS

- *Taking advantage of seasonal market prices*
- *Sharing production to allow surge during contingencies*
- *Attaining below-market pricing*

During 1995, DLA further leveraged its buying power by continuing to move from a strict activity by activity view, to a lateral look across ICPs and customers to create high-volume corporate contracts. Initially, DLA established such arrangements with 12 contractors worldwide. The number of these contracts has increased, such that, as of September 1995, approximately 50% of purchases were through long-term contracts. In addition, reengineering the process used in contracting for goods and services has opened the way for DLA to cut \$1.5 billion from what taxpayers will pay over six years for the

fuel to run our Military's aircraft, tanks, ships, and other equipment.

Through power-buying and direct vendor delivery, DLA is documenting key improvements in the prices of both direct procurement and contracted goods.

### THE PAY-OFF FROM OLA'S "BUY RESPONSE VICE INVENTORY" PROGRAM

- Medical supplies costs down 25%
- Medical item inventory cut by 55%
- Heavy equipment parts costs are down 25%
- Heavy equipment parts inventory cut by 50%
- Costs of recruit uniforms are down 10%
- Clothing and textiles in general cost 22% less
- Specific vehicle maintenance item costs are down 21%

## RETOOLING THE SUPPLY CHAIN

In the mid 1980s, the Defense Personnel Support Center (DPSC) was storing over \$2 billion worth of food, clothing and medical supplies. Some managers were not even sure what was in their stockpiles, with inventories including everything from combat boots made for use in the Korean War to 1950's vintage hospital gowns. In the spirit of reengineering and becoming more competitive through the adoption of best commercial practices, DLA overhauled the supply system. The results at DPSC:

- Dramatically reduced medical inventories by 55% since 1991 through using just-in-time inventory practices aided by electronic data interchange (EDI) and allowing customers to comparison shop via electronic catalogs and receive order confirmation within minutes.



## OLA SAVES \$1.5 BILLION

The fuel to run the planes, tanks, ships, and other equipment of the Armed Forces costs the government approximately \$4 billion a year. DLA has reengineered its fuel procurement practices to save the Government \$1.5 billion over a six year period.

For example, Defense Fuel Supply Center (DFSC) is aggressively expanding its customer support in programs such as natural gas and direct plane-side refueling to get the best possible price for their customers. Expansion of these programs is expected to save in excess of \$50 million per year when fully implemented.

- New business practices lowered operating costs, boosted productivity and enabled the center to deliver goods faster and at a lower cost to the customer. Product order and shipment cycle time was reduced from as much as 60 days to fewer than 72 hours.



## PROCAS

Process Oriented Contract Administration Services

### TRADITIONAL COMPLIANCE

- Adversarial Environment
- Functionally Driven
- Regulated
- Task Oriented
- Reviews, Audits, Inspections
- Detection and Correction

### PRDCAS APPROACH

- Teaming
- Customer focused
- Empowered
- Process Oriented
- Performance Based
- Prevention and Improvement

### REUTILIZATION AND MARKETING SAVINGS SHOULD EXCEED \$600 MILLION

The Defense Reutilization and Marketing Service (DRMS) has achieved dramatic innovations: outsourcing specific functions and processes, exploiting existing business capabilities, adopting new business techniques, and fostering small business development. In addition, internal processes have been radically revised based on entrepreneurial principles that decentralize control and empower employees. These improvements are projected to produce savings exceeding \$600 million over a six-year period.

### LIFE CYCLE COST REDUCTIONS

Reducing Life Cycle Costs of both new and existing weapons systems is one of DoD's foremost priorities. Besides its overall commitment to save billions of dollars via improvement to its basic mission responsibilities, DLA is playing several critical roles in support of this objective. One is through close liaison with the Military Services and DoD staff to identify and pursue opportunities to enhance the reliability, maintainability and supportability ("R, M&S") of weapons systems components. The idea is to leverage a small up-front investment in R, M&S to achieve major downstream cost reductions through increased operational availability and reduced costs of spares and repairs. Another DLA role involves Defense Contract Management Command's (DCMC) development of contract administration "lessons learned" and other inputs to Program Managers which help

them reduce both the acquisition and in-service costs of new or modified weapons systems.

### PROCESS ORIENTED CONTRACT ADMINISTRATION SERVICES (PROCAS)

**SAVINGS DURING 1995 ALDNE  
TOTALLED \$3.3 BILLION FROM  
REDUCED OVERSIGHT AND  
INCREASED INSIGHT**

- *Teaming with private industry to initiate process improvements*
- *"Lessons learned" used in negotiating contracts*

DCMC has successfully implemented PROCAS in partnership with some of the leading Defense Department weapons systems companies. These particular companies represent approximately 75% of the value of contracts in process. PROCAS takes a quality-oriented approach to administering contracts which goes beyond basic compliance reviews to add emphasis on cost-saving process enhancements on existing contracts. The PROCAS philosophy also enables DLA to provide "lessons learned" for weapon systems program managers' use in negotiating new contracts.

By using the PROCAS approach, DLA has revolutionized its relationship with private industry. Instead of waiting to inspect the "end product," DLA takes a proactive role, partnering with companies right from the early stages of product development and manufacture.



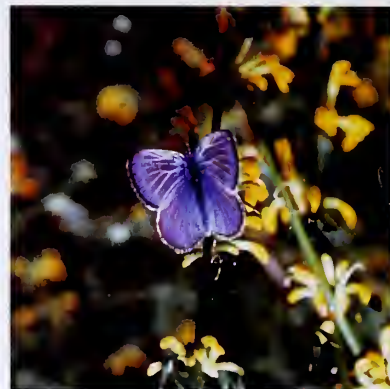
### PRDCAS SUCCESS=\$ SAVINGS

In 1992, the new C-17 military cargo aircraft appeared to be heading straight for cancellation due to severe cost, quality, technical, and schedule problems. The Air Force needed a replacement for its aging C-141 fleet, which was nearing retirement, so the Pentagon granted a short time frame to the C-17 program to make significant improvement. Knowing the intense stakes involved, the C-17 contractor, McDonnell Douglas, and DLA's DCMC Plant Office, at McDonnell Douglas Long Beach, launched a no-holds-barred PRDCAS effort which helped to save the C-17 and make cost savings history. For example, defects were reduced by 81 percent, and the actual hours in the Final Delivery Process were reduced by nearly 50 percent.

The Under Secretary of Defense (Acquisition and Technology) awarded U.S. Air Force Colonel Eugene Kluter, the Commander of the Defense Plant Representative Office (DPRD) at McDonnell Douglas, the Defense Superior Service Medal for the outstanding PRDCAS results on the C-17 program.

## **"EXTINCT" BUTTERFLY REAPPEARS AT A DLA DEFENSE FUEL FACILITY**

Although surrounded by the urban sprawl of Los Angeles County, DLA's San Pedro, California, Fuel Supply Facility is a site that provides a habitat for various plants and animals, including several threatened or endangered species. Considered a rare, well-managed biological gem, it was in this protected area that the Palos Verdes blue butterfly was sighted in March 1994 — a species not seen since 1983 and classified as extinct. The Secretary of Interior sent his personal congratulations for DLA having helped to restore the habitat.



## **IMPROVING QUALITY**

During 1995, one of the key quality issues facing DLA was a 17% contract delinquency figure. DLA is emphasizing the importance of on-time delivery, and is reinforcing this contractually by such means as best value buying. The Defense Contract Management Command (DCMC) supports the importance of on-time delivery through a reinvention laboratory that disciplines the product acceptance process DoD-wide. Thus DLA now takes a much more active role in supporting the Military Service buying offices at the early stages of the contracting process to assure that increasingly specialized requirements in areas such as weapons systems and spares are identified and met.

DLA is also emphasizing quality improvement throughout the rest of its missions. For example, initiation of Direct Vendor Delivery and Prime Vendor support arrangements often results in better quality, since the items do not receive "double handling" via intermediate warehouses, and can often come from more recent contractor production runs. In addition, the quality focus has significantly reduced the incidence of customer Quality Defect Reports for items received from DLA's own distribution sites.

## **PROMOTING ENVIRONMENTAL SOLUTIONS**

1995 was a milestone year in which DLA again exerted its leadership posi-

tion on the environmental front. Environmental initiatives have been underway throughout DLA. In communities across the nation, DLA facilities are taking an active role in projects such as groundwater cleanup, prudent energy use, and reduction of the use of hazardous materials.

### ***Ozone depleting substances***

The Agency supplies halon for use by the Military Services in a number of mission critical, national security programs. DLA initiated a Residual Halons Program that oversaw the procurement of nearly 607,000 pounds of halon-type 1301. Through this effort, the environment was protected against the potential venting of ozone-depleting substances, while permitting the continued use of halon in mission critical systems, as Military customers await development and approval of alternative substances. DoD also benefitted by avoiding the hefty taxes which would have been required to buy halons after the effective date of the tax.

In addition to this buying program, the Agency has reduced the number of contracts that require ozone depleting substances from over 3,200 annually to just 11 in FY 95.

### ***DLA's Partnership to Save the Bay Serves as a Model for Communities***

Two DLA facilities in the Chesapeake Bay watershed area are working closely with public and private agencies to clean up farm and industry

pollution threatening the future for water quality, wildlife, and recreation. This program has become a model for watershed management and federal interagency cooperation.

### ***Environmentally- friendly products***

DLA published its second "Environmental Products" catalog in 1995 — this one listing products from all its buying centers. This "Green Catalog" contains 487 DLA-managed products with a more environmentally-friendly effect on health and the environment than competing products serving the same purpose. The Deputy Under Secretary of Defense (Environmental Security) praised DLA for taking this step towards protecting the national environmental security, for helping its customers meet goals in reducing hazardous waste, and for protecting employees.

## **PERFORMANCE INDICATORS**

During strategic planning for near-term and long-term goals, DLA established a clear "battle plan" for realignment and reengineering. During 1995, DLA carried out this plan, documenting significant success in meeting its "dual mission" of serving DoD with materiel while serving the American taxpayers with savings — and security.

Performance data are included in the inside front cover and page A-1 of this report. The following highlights three vital elements of this performance:



## SIBERIAN RAILROAD CARS

Because of DLA's contract management experience with overseas operations, the Agency was asked to assess the capability of a Russian company to deliver 100 flatbed railroad cars to fulfill the Defense Nuclear Agency's requirements. DLA quickly assembled an interdepartmental team of specialists to evaluate the Siberian company's capabilities. Despite the unfamiliar cultural, organizational, and remote geographical environment, DLA produced a comprehensive assessment on time.



■ **Supply Materiel Availability ("SMA"):** SMA is a broad measure of DLA's basic ability to provide materiel immediately from its sources when requisitioned by its customers. DoD's goal for DLA's SMA is 85% ... i.e., 85% of the time the materiel should be provided within a reasonably immediate timeframe (tied to the customer's requisition priority). Items not satisfied "immediately" go on "backorder" until subsequently obtained and shipped to the customer. In recent years funding limitations had threatened DLA's ability to meet the 85% SMA goal, but a combination of improved funding and enhanced management techniques has enabled DLA to beat its goal with an 86% SMA for 1995. But even more importantly, DLA is not satisfied to keep this broad measure above 85%... DLA is focusing on SMA for specific key weapon systems, and on those individual spare parts which may be "downing" a particular weapon. This is especially significant since funding restrictions have necessitated reduction in Service-owned inventories, and the Services are thus increasingly dependent on DLA support. As a result, DLA intensively tracks weapons systems support, typically keeping about 95% of the approximately 1,400 such systems identified across the Military Services at an SMA above 85% ... while working closely with its customers to correct any

DLA materiel support shortfalls that may contribute to reduced operational availability of individual weapons systems regardless of whether or not DLA is exceeding the 85% target rate overall.

■ **Logistics Response Time (LRT):** LRT measures the cycle time involved from the date a customer decides it needs an item until the date the item is received by the customer. It is the most important customer-oriented measure of overall materiel support, and DoD is stressing improvements in LRT. The total LRT measure includes numerous sub-components, some of which are under direct DLA control and some of which DLA can only influence. In 1995, besides successfully keeping its SMA above 85% (which directly impacts overall LRT performance), DLA reduced another LRT element under its direct control...requisition processing timeframes at its ICPs and distribution depots...by 33% (from an average total of six days down to four — and much faster for high-priority requirements). In 1996, DLA is placing a major emphasis on improving another LRT area largely under DLA control, which is the time a customer waits for requisitions "backordered" because they were not immediately available from DLA or vendor stocks. While progress continued in reducing the number of such backorders in 1995,

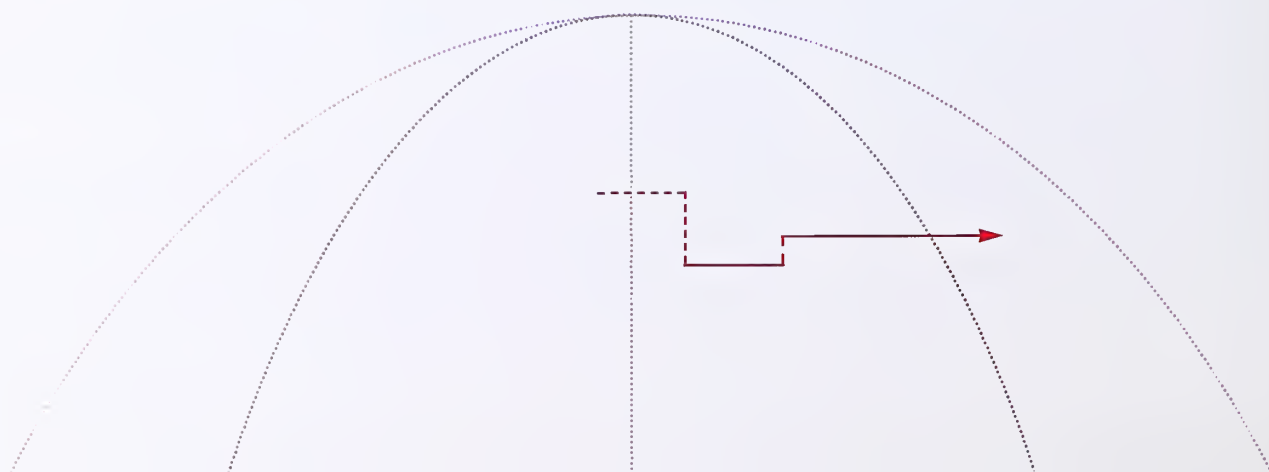
cutting them from a 1992 high of 624,000 down to 488,000, there are still too many, and they take too long to resolve. DLA is targeting to reduce the total by another 10% in 1996, along with a special focus on those older than 180 days, which DLA expects to reduce 25%.

■ **Contract Negotiation Responsiveness:** This indicator measures the timeliness of DLA's contract administrators in meeting target dates for negotiating final cost settlements on existing contracts. This has a major impact on DoD resource management, as well as on the workload for individual Program Managers throughout DoD and numerous other Federal Agencies that we support. This measure improved in 1995 from 75% to 83%, with a target of 90% by the end of 1996.

On balance, DLA made significant progress on critical performance indicators in 1995, and will continue to enhance performance in 1996.

# Innovation

## DEFENSE PERSONNEL SUPPORT CENTER







The Defense Personnel Support Center provides food, medical supplies, and clothing to the U.S. Military. Over the past four years, it has transformed an obsolete procurement and storage system into a highly responsive, financially self-sustaining operation.

Vice Admiral Ed Straw, Director, DLA (second from left); Mr. Robert Molino, Executive Director for Contracting, DLA, HQ (third from left); and Brigadier General Carl Freeman, Commander, DPSC (fourth from right), proudly accept the Innovations in American Government Award — an awards program of the Ford Foundation— from Vice President Al Gore (center). Mr. William G. Milliken, chair, The National Committee on Innovations in American Government (at far left), Mr. George Allen, Deputy Commander DPSC, (third from right), Mr. Franklin A. Thomas, president of the Ford Foundation (in back on right); and Deputy Secretary of Defense John White (in front on right), join in the ceremony.



## Springboards to Better Performance

Building on reengineered processes and the past year's progress, DLA continues to meet new challenges in improving its readiness support capability.



through Business Process Reengineering, Acquisition Reform and Selective Privatization. DLA changed from acting as a traditional materiel support wholesaler who bought, stored and sold inventory and measured success by the percentage of requisitions filled... to a materiel support broker securing the most efficient and effective support available from the best source (public or private), measuring success from the customer's perspective. In a similar vein, DLA refocused its contract management mission from process compliance to process improvement... building on lessons-learned to reduce future programs' life cycle costs, while providing major cost avoidances and improved responsiveness for current contracts. In both cases, DLA has been adopting or adapting the best practices of the commercial and government sectors, teaming with customers and industry, and privatizing processes when it is the best approach to successfully support readiness at reduced cost.

### CHANGING OUR BUSINESS PHILOSOPHY TO MATCH OUR VISION

To make its vision of providing logistics readiness at reduced cost a daily reality, DLA reinvented itself

### BUYING FLEXIBLE RESPONSE VICE STATIC INVENTORY

DLA reduced the cost of its operations with its "Buy Response, Vice Inventory" (BRVI) program. Through



the use of this “smart buying” approach, the Agency increased the quality of materiel that DLA provides to America’s military men and women. This vanguard effort, comprised of direct vendor delivery, family commodity purchases, and electronic commerce, will cut costs by \$291 million over a six year period. This program reduced the amount of inventory actually stored in the warehouses so that with Base Realignment and Closure (BRAC) FY 93 actions and an improved storage management plan, DLA has already successfully decreased its storage capacity by 28% with plans (including BRAC 95) to reduce by 42%. As a result of the BRAC process and continued progress on the BRVI initiatives, DLA will further reduce infrastructure costs while maintaining strong customer support.

#### **TURNING “OVERSIGHT” INTO “INSIGHT”**

DLA’s Defense Contract Management Command (DCMC) has completely reoriented its approach to contract administration, in keeping with DLA’s own vision and the various facets of DoD’s Acquisition Reform program. In the broadest sense, this reorientation involves reduced oversight of process compliance and a shift of DCMC’s resources to focus on additional insights that will contribute to process improvement. Several of the initiatives implemented to support this philosophical change are described elsewhere in this report. They include “PROCAS” and its focus on process improvements, and “Reinvention Labs”

designed to identify additional areas where oversight can be safely reduced while further improving processes. Another initiative is “Early CAS” (Contract Administration Services), which brings DCMC’s expertise aboard much sooner in the Program Management process than in the past, so that lessons-learned from other contracts can be better utilized in the initial stages of new ones. These and other steps are totally in keeping with “Acquisition Reform” and DoD’s related Integrated Product and Process Development (IPPD) approach to Program Management, and have a major payoff for everyone involved ... both DoD and other Federal Agency customers of DCMC, and the contractors themselves. Ultimately these initiatives enable better use of scarce program resources and provide a big savings to the taxpayers.



#### **TURNING PROBLEMS INTO OPPORTUNITIES: DRAMATICALLY IMPROVING MEDICAL SUPPLY**

**Medical logistics support had been a challenge for DLA because of shelf life problems and rapid advancements in medical technology. Military hospitals were not satisfied with service, selection of items, and prices. To turn the situation around, DLA refocused its resources and its procedures to leverage its “power buying.” A medical prime-vendor fixed price contract was established — a move that immediately won the approval of the hospitals through its assurance of high-quality responsive support.**

## Combining the Strengths of Government and Business

**Sales and services of over  
\$14 billion in FY 1995  
would rank DLA #62  
among America's top  
Fortune 500 businesses.**



Following the best models developed in the private-sector, DLA has replaced traditional layers of management with highly focused, multi-functional teams empowered to move aggressively to make breakthroughs in meeting the customers' requirements for higher quality, lower prices, and faster response time.

DLA successfully met its wide spectrum of responsibilities during 1995, yet with fewer resources than in past years. This was made possible by radical reengineering that reduced both staff size and structural complexity at

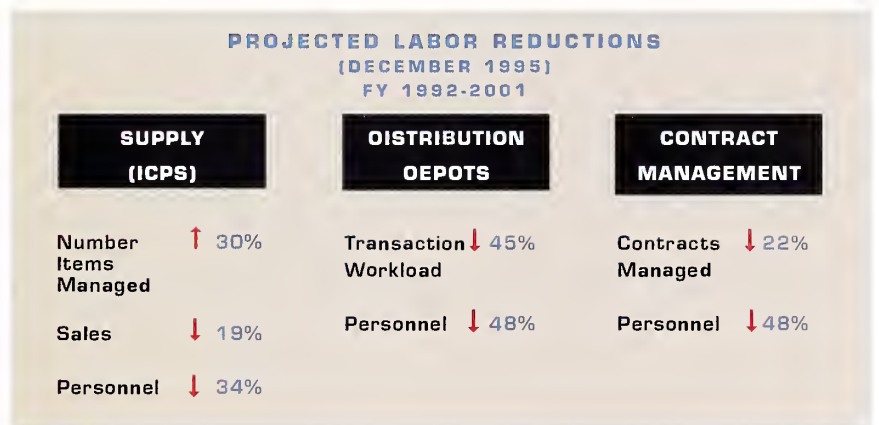
HQ DLA. In fact, the Director of DLA no longer has 42 people reporting to him — this has been reduced to 6 people and it is structured according to 3 integrated business areas (materiel management, contract management and corporate administration), along with the Principal Deputy, Comptroller and the General Counsel.

While DLA is quickly adopting many competitive, customer-driven measures proven in the private sector, the Agency is also retaining the prime strengths of its position as a government operation. This includes an uncompromising commitment to America. While every effort





**Our goal is to be world class in all facets  
of our operations and save resources  
throughout DoD — Business Process  
Reengineering is the key**



is being made to cut costs, infrastructure, and inventory, DLA recognizes that the goal of these measures goes beyond the private-sector's primary focus on satisfying the financial goals of corporate executives and stockholders. Instead, DLA must carry out the public trust, making decisions about combat readiness that ultimately will affect the security of the American warfighter and the American people, now and for years to come.

A major element of DLA's efforts to support readiness at reduced cost is its approach to privatization/outsourcing.

There are numerous pressures on DoD activities to pursue "contracting out" the majority of their logistics and other infrastructure functions. And there are many firms which offer services in these areas with the potential to be cheaper and more responsive than retaining this work "in house". DLA has been a leader in assessing these capabilities, always keeping in mind the need to ensure its decisions reflect doing whatever it takes to support readiness at reduced cost.

**Personnel reductions continue through aggressive business process reengineering as well as base realignments and closures — a trend that will continue in accordance with the DoD Force Structure Plan and BRAC 95. OLA has consulted and partnered extensively with private sector corporations and is pursuing comparable strategies to reduce costs while enhancing performance. Bottom-line: Reduction of OLA-wide staffing during the period FY 1993 through 2001 is expected to exceed 40%.**

## Partnerships with Customers and Industry

When it comes to assuring the combat readiness of American warfighters, “battles” must be fought — and won — repeatedly, day in and day out. That’s why DLA “attacks” its mission with the same seriousness and level of intensity delivered by the warfighters. And while DLA’s work is accomplished primarily within the United States, the results of that work are seen around the world. But DLA can’t do it alone ... DLA works closely with its customers and industry.

### DIRECT VENDOR DELIVERY (DVD)

Examples of improvements in lead time:

#### STEEL INITIATIVE:


99 days  7 days

#### DIESEL PARTS:

118 days  7 days

48 hours in emergencies

#### HELICOPTER PARTS:

270 days  8 days

48 hours in emergencies

#### WOOD PRODUCTS:

72 days  10 days

24 hours premium

DLA’s thrust is built on:

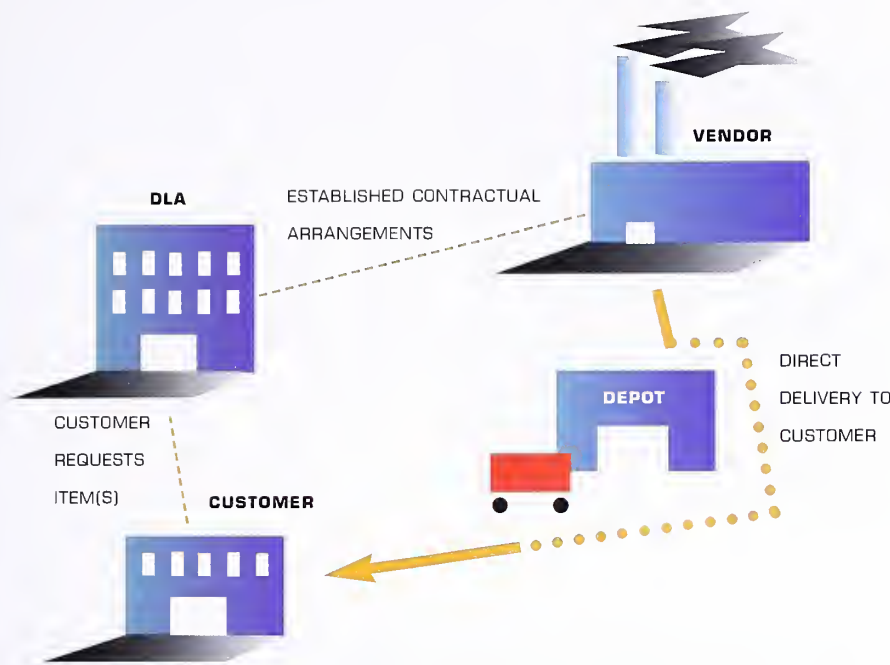
- Assuring a highly trained and experienced workforce
- Reducing the cost of goods
- Beating the rate of inflation
- Getting close to our customers
- Working with responsible contractors
- Insisting on product quality
- Compressing response time
- Minimizing inventory
- Breaking through logistical obstacles
- Applying technological advances
- Reengineering its processes

It is DLA’s job to support warfighters with quality materiel and effective lines of supply. To do that job in today’s rapidly changing political and economic climate, DLA continues to enhance its tactics. Some of the biggest successes can be seen in the innovative new relationships DLA established with its customers and trading partners in the most recent two years. Several of these expand our initial Direct Vendor Delivery approach to increase DLA’s reliance on the commercial marketplace.

### PRIME VENDOR

The Prime Vendor Program, a form of Direct Vendor Delivery, features direct delivery from a designated vendor who can ship a broad array of items for a particular commodity to the customer within 24 to 48 hours after receiving an order. The Defense Personnel Support Center (DPSC) initiated Prime Vendor and has two programs in operation for medical and subsistence items. The medical program provides pharmaceutical and medical/surgical items to customers in the Continental U.S. (CONUS), Europe, Panama, and soon the Pacific. CONUS and OCONUS customers are grouped and serviced within 23 regions. In the medical program, the customers use a computer tied to the vendors’ proprietary system to place orders. The subsistence program serves Military bases in CONUS. The U.S. is divided into regions which are serviced by commercial food distributors. In subsistence, DPSC orders the items from the vendors. Both programs are intended to expedite support to customers while reducing inventories at DLA Distribution Depots and at the customers’ own sites. DLA is now focusing on expanding the use of Prime Vendor for other commodities such as vehicle parts.





## DLA IS AN INFORMATION BROKER - NOT JUST A MATERIEL HANDLER

**DVD** is a form of inventory management DLA is using to enhance readiness. Through DVD, requisitions and orders continue to flow between customer and vendor through the DLA ICP. The difference is that materiel now flows directly from the vendor to the customer, rather than from the vendor to the DLA storage site and then on to the customer. The goal is to use this streamlined process to improve responsiveness and reduce inventories, storage costs, and operational expenses. During FY1995, 32% of DLA sales were handled through DVD.

### PREMIUM SERVICE

Borrowing from best business practices in private industry, DLA has implemented its ground-breaking Premium Service for high value critical items for which there are infrequent but urgent requirements worldwide. Operated from a central location collocated with an express airfield, the Premium Service initiative is customer driven and based on proven commercial practices. There is guaranteed direct delivery to CONUS customers within 24 hours, with delivery to all other customers within 48 hours after receipt of the order. It is anticipated that premium service costs to customers will be more than offset, both by reductions in the costs of maintaining inventories and by improved workload scheduling arising from more dependable delivery times and more responsive logistics support.

### ELECTRONIC COMMERCE AND ELECTRONIC DATA INTERCHANGE (EC/EDI)

- Responds to a "condition of trading" in the international marketplace
- Reduces cycle time
- Reduces inventory
- Reduces cost of operations

Implementation of EC/EDI continues rapidly despite the challenge presented by the tremendous scale of the DLA operation — and the fact that supplies are needed around the clock, around the world. In 1995, DLA found ways to meet the challenge of keeping operations running while restructuring its systems.

During 1995, DLA continued to ramp-up its electronic transaction systems, and approximately 67% of

contract actions — about 725,500 transactions — were handled electronically, along with 232,000 bill-paying transactions.

With America's combat preparedness always the top priority, and rapid change in the weapons and tactics employed by military forces, there isn't the time for a slow, gradual "reinvention" of supporting logistics systems and procedures. Like America's top companies, DLA recognizes that the change must not be evolutionary but revolutionary. It must be fast, decisive, and literally change the way business is done at DLA. And yet it must be accomplished without disrupting the systems that serve an ongoing need.

DLA is achieving this via DVD, EC/EDI, and through other initiatives such as those described on the next page.

### COMPACT DISK-READ ONLY MEMORY (CD-ROM) PUBLICATIONS

DLA has implemented CD-ROM technology as the standard for Agency publications. Hundreds of Agency publications were converted from paper to compact disk format. Eliminating hard-copy regulations saves the Agency \$760,000 each year in printing, distribution, and warehousing costs, while an additional administrative cost avoidance of \$1.4 million results in annual savings in excess of \$2 million.

## BARCODING AND THE USE OF AMS CARDS

- *Triples productivity*
- *Reduces labor by 66%*
- *Cuts processing and receiving time*

Working closely with the Army and their Radio Frequency (RF) container tracking system, DLA's Automated Manifest System (AMS) is making dramatic improvements in getting materiel to its destination. In this new system, a laser card about the size of a credit card is encoded with container contents during loading. The laser card — more durable than a paper manifest and recodable for recycling — travels with the ocean-going or airlifted container. At the destination, the laser card is scanned in seconds for the identification of contents. AMS has proven so effective that the system is now being fine-tuned to support potential “hot spots” worldwide. Future plans include development of independent hardware to be deployed to streamline operations that include UN peacekeeping, humanitarian and disaster relief, and other contingencies. When combined with Army's RF approach, DLA's AMS is a major contributor to achieving total asset visibility (TAV), one of DoD's top logistics priorities.

## RETAIL ASSET VISIBILITY

- *Improved readiness*
- *Reduced inventory*

Having visibility of retail level inventory is a subset of the TAV effort. DLA worked with the Military Services and now has access to their retail assets to fill orders and offset wholesale buys. What made the success of this initiative possible was the creation of a visibility gateway that allows the DLA inventory control points to pinpoint goods at diverse locations and speed materiel to where it's needed by the customer.



**A laser card about the size of a credit card is encoded with container contents during loading. The laser card — more durable than a paper manifest and recodable for recycling — travels with the ocean-going or airlifted container. At the destination, the laser card is scanned in seconds for the identification of contents.**



## REINVENTION LABORATORY FOR REDUCING OVERSIGHT COSTS

Jointly sponsored by DCMC and the Defense Contract Audit Agency, this effort began operations in January 1995, building on the "PROCAS" process discussed earlier. The laboratory has two objectives. The first is to minimize oversight of contractors who have strong business and technical management systems and documented histories of compliance with DoD contractual requirements. The second objective is to identify contractual requirements that are not useful or add unnecessary expense, and eliminate those requirements wherever feasible. Achieving these objectives will reduce DoD's acquisition costs. Contractors, whose overhead requirements will decrease, will find their costs reduced as well.

## ADOPTING COMMERCIAL STANDARDS

DCMC is a key player in DoD's move to adopt commercial standards in place of military specifications, particularly in the world of quality assurance. DCMC is the defense organization responsible for inspecting and accepting products; to accomplish this, DCMC traditionally verifies multiple contractor quality assurance systems in each contractor facility. Today, DCMC is in the forefront of commercial standardization. Embracing the international business community's quality assurance processes (in the form of ISO 9000), DCMC is qualifying contractors whose processes meet these international standards. Contractors can then apply these same quality standards across multiple facilities and save money by avoiding unique quality systems for each facility or product.



**Members of DLA's National Performance Review (NPR) team and its sponsor, Principal Deputy Director Major General Ray E. McCoy (at far left), celebrated the team's second birthday during 1995. Major General McCoy congratulated the team on their past year's accomplishments, which included coordination of twenty Reinvention Laboratories, impacting each facet of DLA's mission.**

## PREAWARD CONTRACT ASSISTANCE

Today the Agency is focusing on new ways in which it can help its military acquisition customers by reducing the level of contract risks and heading off potential problems. Employing an untapped resource to better assist its customers, DCMC now offers the Military Services' program managers and buying offices precontract-award assistance in the earliest stages of acquisitions. Known as Early Contract Administration Services ("Early CAS") this includes assessing the contents of the contract (during the development and bidding processes) and evaluating contractors' performance capabilities in the source-selection stage.

Two major benefits customers realize from using DCMC's Early CAS services are:

- beefing up their acquisition plans or negotiation positions by using DCMC's team of experts

- reducing contractual post-award problems by selecting capable contractors and identifying potential performance risks (thereby cutting the risk of costly modifications).

Customers who have used DCMC Early CAS are pleased:

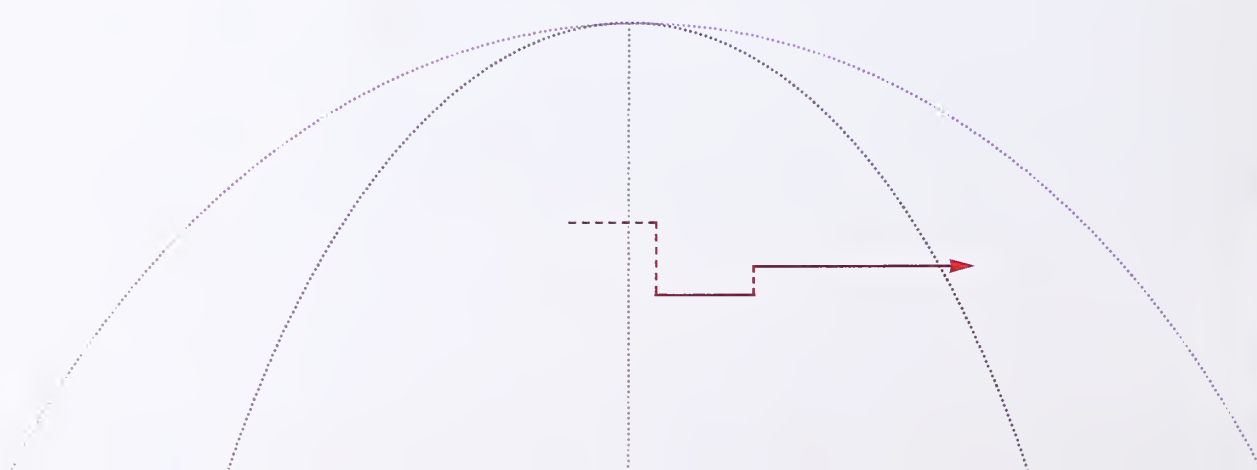
*"DCMC was the backbone of our Alpha Contracting team... Their invaluable insight... outstanding technical analysis... understanding of all the processes involved resulted in better work, reduced cycle time (by 50 percent) and fewer people to accomplish the task."*

Executive Director for Contracts,  
Naval Air Systems Command (NAVAIR).

*"DCMC contributed great comparative insights...not available from the proposals and beyond the program office's capability to evaluate...Most impressive was the true customer focus that the DCMC team showed."*

Program Director, Joint Direct Attack Munitions (JDAM).

DEFENSE CONTRACT MANAGEMENT AREA OPERATION





## DCMAO) GARDEN CITY



Located twenty miles east of New York City, DCMAO Garden City is charged with monitoring the performance of over 500 defense contractors throughout Nassau and Suffolk counties on Long Island, New York. With so many of these contractors at the forefront of aerospace and electronic technology, this area is known as the "cradle of aviation."

DCMAO Garden City administers more than 8,000 defense contracts with a face value of \$7 billion. The products manufactured under the contracts DCMAO Garden City administers range in complexity from tentpoles to polarizing filters — these products are used far beneath the surface of the sea, as the valves in nuclear submarines, and miles above the earth, as the atomic clocks used in advanced communication satellites.

Army COL Alberto Tio (center), then commander of DCMAO Garden City, proudly accepts the President's Quality Improvement Prototype Finalist Award from Vice President Al Gore (right) as Secretary of Defense William Perry (left) looks on.



## What's Ahead for DLA?

Changes implemented or continued during 1995 have already revolutionized DLA's ability to deliver quality, affordability, and responsiveness. These changes, however, are only the beginning. DLA commits to continuing to refine its role and processes in delivering 100% combat preparedness for America. The search for and implementation of initiatives will continue ... DLA will do whatever it takes to support readiness at reduced cost.





## CHALLENGES FOR 1996

As part of its continuing efforts to cut costs while improving support, DLA will be assessing a variety of support techniques that involve privatization/outsourcing and the potential benefits of emerging technology. DLA already has privatized over 30% of its operational costs, such as processing of hazardous waste disposal and transportation of materiel to customers worldwide — and when materiel support purchases are factored in, nearly 80% of DLA's total budget is spent in the private sector. Additional privatization options are under intense review as a result of DLA's own initiatives, and in keeping with the conclusions of the Department's 1995 Commission on Roles and Missions (commonly called the "CORM"). The CORM was chaired by Dr. John White, who is now the Deputy Secretary of Defense. DoD is emphasizing privatization as a means to reduce infrastructure costs while preserving readiness support. In addition to continued efforts to expand use of DVD and Prime Vendor support of customer requirements for food, medical, clothing and spare parts, DLA expects to develop other privatization programs, such as pilot efforts at several of its distribution depots, and the possibility of outsourcing significant elements of its Reutilization and Marketing mission.

In the same spirit, DLA's contract management processes have all been reoriented to use best commercial practices, in support of DoD's Acquisition

Reform program. DLA's Defense Contract Management Command (DCMC) will continue its emphasis on related programs stressed throughout 1995, such as PROCAS, Reinvention Labs and Early CAS. In addition, DCMC will be the lead activity for implementation of a major element of DoD's efforts to employ commercial specifications and standards as broadly as possible across all acquisition programs. This "Single Process" initiative, announced in December 1995, will greatly expand companies' authority to use proven commercial production processes and standards across the board on all of their DoD contracts, as opposed to past requirements that often differed for each DoD program (and usually were not the same as related commercial standards). Besides a major role in all elements of this approach, DCMC will specifically be responsible as DoD's lead for negotiating and signing "Block Changes" to a company's existing contracts. This will expedite obtaining the benefits of "Single Processes" for on-going work as well as new procurements.

But DLA is *not* limiting itself to the use of the best existing practices available ... it is looking ahead at anticipated developments in technology and the marketplace, particularly those facilitated by the Internet, and other elements that can expand the use of electronic commerce. Although various options will be under review, DLA's Business

Process Reengineering team will be looking at use of electronic catalogs and other innovative concepts such as the "virtual marketplace". Their intent will be to take full advantage of potential changes in business practices and related emerging technology that can enhance customer options, and the overall quality of DoD logistics support, while reducing costs.

## THE POWER OF THE DLA WORKFORCE

DLA's "weapons" in the battle for optimum combat preparedness and maximum value and stewardship of resources will continue to include technological developments, strategic planning, new marketing tactics, innovative contract management services and structural streamlining where every DLA member is empowered to make a vital contribution.

All these measures continue to be underscored by DLA's more than three decades of experience in the "basics" of good service: doing whatever it takes to get whatever is needed, wherever it's required. That's why, day after day, DLA trains its growing arsenal of contracting experience and logistical expertise on:

- Assuring combat readiness to support the warfighter.
- Getting the greatest value from every tax dollar invested in national defense.
- Being the "provider of choice" among customers who value the response, quality, timeliness, and ease only DLA can provide.
- Helping empower America to respond to any contingency — including humanitarian aid — no matter how quickly or unexpectedly it develops.

But these measures would not succeed without DLA's outstanding workforce. Working closely with union representatives, DLA strives to be a good employer, making maximum use of available civilian personnel incentive programs that minimize the impact on individual employees as the total workforce declines in keep-

ing with workload volume and cost effective process changes. DLA also emphasizes utilizing the full potential of each employee. For example, women comprise 25% of DLA's civilian Senior Executive Service ranks, and disabled employees are 10% of its workforce. In addition, DLA is placing a major priority on workforce development so that DLA's employees ... the backbone of the Agency and the most important factor in its success ... will be continuously exposed to evolving business practices and better able to support DLA's customers.

### ONLY DLA

DLA oversees 24,100 contractors and coordinates the storage and distribution of millions of items by truck, ship, air, and rail to every point on the globe. It provides rapid access

to billions of dollars of vendor inventories. That's why DLA customers don't need to struggle with making all the connections necessary to get what they need.

No other single source can offer this range of procurement experience. No combination of sources can offer such start-to-finish coordination or economies of scale. Only DLA can offer all this ... plus the commitment to use its resources and experience, not to take risks, but to take initiative: first and foremost to support the American warfighter, but also to save the taxpayer money.

Today and into the future, DLA continues to give America a powerful partner in a quiet — but vital — line of defense against an unpredictable world.



**In keeping with the National Performance Review and a related Presidential Executive order, Mr. Frank Lakis, the President of the Council of American Federation of Government Employees (AFGE) Locals, and the DLA Director, Vice Admiral Ed Straw, sign an agreement that gives priority to fostering the DLA/AFGE partnership.**



## WHAT DO THE INITIATIVES NOW IN PLACE AT DLA MEAN BEYOND 1995?

In addition to the efficient operations now being documented within DLA, initiatives will enable the Agency to make even greater strides in productivity and effectiveness. From 1996 through the year 2001, the reinvention of DLA will reward customers and taxpayers with benefits that include:

- 22% reduction in material support prices (vs. normal inflation), which is expected to result in over \$6 billion of savings and cost avoidances into the first few years of the 21st century
- 24% reduction in storage space

- 38% reduction in personnel
- 50% reduction in leadtime
- \$500 million savings in distribution costs
- 23% reduction in value of DLA inventory

... all while helping to maintain superior combat preparedness.

Along with its warfighter customers and numerous other Federal Agencies it supports, DLA faces the challenges of maintaining superior performance today while evolving rapidly to meet future challenges. DLA supports a broad variety of day-to-day operational missions with an immediate effect on its thousands of customers, but it also

plays a critical role in implementing major projects such as DoD's Acquisition Reform program. Moreover, DLA must complete numerous initiatives designed to upgrade performance while ensuring it meets billions of dollars of cost-savings commitments. Continuous changes in the commercial marketplace will mandate that DLA constantly pursue dramatic revisions to its business processes. But DLA's most important responsibility will always be to do whatever it takes to support military readiness at the least possible cost. In 1995, DLA continued to improve its ability to meet this pre-eminent challenge, and DLA is totally committed to further progress in 1996 and the years ahead.



While visiting the Tuzla Air Base cargo handling area, the DLA Bosnia Contingency Support Team Commander, COL Mike Pendergast, looks on as Mr. Mike Wagner and LTC Dan Bailey, members of his team, inspect documentation for an air pallet prepared and shipped by the Container Consolidation Point at Defense Depot Susquehanna, Pennsylvania.



A soldier sets up a typical home for the over 100 DLA Contingency Support Team members working in Bosnia-Herzegovina, Croatia, and Hungary.

## PERFORMANCE DATA <sup>1</sup>

	1994	1995
<b>SCOPE</b>		
Items Managed ( <i>in millions</i> )	3.7	3.8
Customer Requisitions ( <i>in millions</i> )	23.2	21.9
Distribution Transactions ( <i>in millions</i> )	34.7	30.7
Total Budget ( <i>in billions of constant Fiscal Year 1996 dollars</i> )	\$ 14.7	\$ 14.1
Staffing ( <i>in thousands</i> )	56.8	50.7
Civilian	55.5	49.6
Military	1.3	1.1
Inventory ( <i>in billions</i> ) <sup>2</sup>	\$ 7.4	\$ 6.7
Storage Space ( <i>in millions of cubic feet</i> ) <sup>3</sup>	618	568
Contracts Administered ( <i>in billions</i> )	\$ 835	\$ 910
<b>CUSTOMER SUPPORT</b>		
Supply Materiel Availability ("SMA") <sup>4</sup>	85.8 %	86.3 %
Logistics Response Time (LRT) ( <i>in days of ICP and Distribution Depot processing</i> )	6	4
Quality Defect Reports (QDRs) ( <i>as a proportion of requisitions processed</i> )	0.06 %	0.05 %
Overaged Contracts	25 %	17 %
<b>FINANCIAL RETURN</b>		
Materiel Prices (Annual Change) <sup>5</sup>	+1.8 %	+3.2 %
Budgeted Distribution Rate (Composite) <sup>6</sup>	\$ 29.71	\$ 28.40
Total Savings Cost Avoidances ( <i>billions</i> ) <sup>7</sup>	\$ 4.3	\$ 3.8
Materiel	\$ 0.4	\$ 0.5
Contract Administration	\$ 3.9	\$ 3.3

### NOTES

<sup>1</sup> Primarily reflecting status as of end of each Fiscal Year (September 30)

<sup>2</sup> Measures items managed by DLA throughout the period using inventory report criteria that modify financial data to reflect market value... total FY95 inventory, including consumables transferred to DLA from the military services, is \$9.4 billion

<sup>3</sup> Significant further decreases in storage space slated starting in 1996 via Base Realignment and Closure (BRAC) process

<sup>4</sup> Reflects SMA for spare and repair parts segment of DLA inventory (the SMA element of most significance to weapons systems support)

<sup>5</sup> DLA is committed to limit annual price changes for 1996 through 2001 well below expected inflation rates

<sup>6</sup> DLA is committed to constrain this rate well below expected inflation for the period 1996 through 2001

<sup>7</sup> DLA anticipates additional cost savings/avoidances totalling \$8 billion in materiel and \$18 billion in contract administration over the next six years



## DEFENSE LOGISTICS AGENCY FINANCIAL SUMMARY

DLA continues to progress in its efforts to improve financial performance. Our success in this area is directly linked to the progress made in meeting and exceeding our strategic goals as outlined in this year's Journal. Summarized below are several of the key financial performance measures we have targeted and a summary of our progress.

### FY 1995 FINANCIAL PERFORMANCE MEASURES

	GOAL	ACTUAL
<b><i>Supply Management</i></b>		
Fuel obligations/total obligated barrels	\$ 31.45	\$ 29.79
Non-fuel material/dollar of sales	\$ 0.8968	\$ 0.8907
<b><i>Distribution</i></b>		
Composite Depot Unit Cost	\$ 28.40	\$ 28.64
<b><i>Industrial Plant Equipment</i></b>		
Cost/direct labor hour (including non-labor expenses)	\$ 75.32	\$ 86.75
Cost/direct labor hour (excluding non-labor expenses)	\$ 68.20	\$ 62.91
<b><i>Defense Reutilization and Marketing</i></b>		
Cost/dollar of proceeds	\$ 0.46	\$ 0.42
Cost/line of hazardous disposal	\$ 209.84	\$ 207.42

### ANALYSIS OF FY 95 AND FY 94 FINANCIAL RESULTS

Attached are fiscal year 1995 Corporate level financial reports for DLA. Following is a summary of key elements of the reports:

**Total Revenues.** Combined total revenues for DLA increased 2.6% from fiscal year 1994 to 1995 from \$13 billion to \$13.3 billion respectively, driven by revenue increases in Supply and DRMS.

- Supply revenues increased from \$11.1 billion in fiscal year 1994 to \$11.3 billion in 1995, an increase of 2%.
- DRMS achieved a 33% increase in net revenues from \$466 million in fiscal year 1994 to \$622 million in 1995 through the use of innovative marketing strategies which sought to maximize the return on property sold.

## DEFENSE LOGISTICS AGENCY FINANCIAL SUMMARY (CONTINUED)

**Total Expenses.** Combined total expenses remained relatively constant from fiscal year 1994 to 1995, increasing only by 0.2%. This illustrates the success of DLA cost containment efforts.

**Total Assets.** Combined total assets declined 5.6% from fiscal year 1994 to 1995, from \$13.8 billion to \$13.1 billion. This was primarily due to continued efforts at the reduction of on-hand inventory and a shift to Direct Vendor Delivery. Supply inventory, as measured in financial reports, was reduced from \$8.7 billion in fiscal year 1994 to \$7.9 billion in 1995.

**Total Liabilities.** Combined total liabilities increased 9% from fiscal year 1994 to 1995, from \$2 billion to \$2.2 billion. The most significant factors in this increase were the recognition of accumulated liability for DRMS' hazardous disposal program, which was understated in prior years, and an increase in accounts payable for the Fuel commodity.

**Prior Period Adjustments.** Adjustments for fiscal year end 1994 and 1995 were \$150 million and \$418 million, respectively. The fiscal year 1994 adjustment was due to prior-period DRMS revenue, subsistence inventory revaluation and the reversal of erroneous progress payments. Adjustments for fiscal year 1995 primarily relate to the following:

- Depreciation expense was adjusted to correct for under-recognition in prior years. This was done in conjunction with property listing verification for implementation of the Defense Property Accounting System, to be completed in fiscal year 1996.
- Recognition of expenses for Supply which were previously unrecorded.
- Adjustment to recognize DRMS' accounts payable for the hazardous disposal program.

### FY 1995 FINANCIAL STATEMENTS

The following Statement of Financial Position and Statement of Operations are presented in order to provide a brief review of Agency operating results for fiscal year 1995. A complete financial report is contained in the DLA DBOF Chief Financial Officer Annual Financial Statement FY 1995.



# CONSOLIDATED STATEMENTS

Department of Defense  
Defense Logistics Agency Defense Business Operations Fund

## CONSOLIDATED

Statements of Financial Position

as of September 30, 1995

(in thousands)

	1995	1994
<b>ASSETS</b>		
<b>1. Entity Assets:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1). Fund Balances with Treasury	\$ 806,828	\$ 561,892
(a) Funds Collected	13,379,899	12,909,032
(b) Funds Disbursed	(12,526,351)	(12,347,140)
(c) Funds with Treasury	(46,720)	0
(2). Investments, Net	0	0
(3). Accounts Receivable, Net	1,437,295	1,562,234
(4). Interest Receivable	0	0
(5). Advances and Prepayments	102	1,757
(6). Other Federal (Intragovernmental)	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1). Investments	0	0
(2). Accounts Receivable, Net (w/o Undistributed)	239,019	179,929
(3). Credit Program Receivable/Related Foreclosed Property, Net	0	0
(4). Interest Receivable, Net	0	0
(5). Advances and Prepayments	215,645	244,284
(6). Other Non-Federal (Governmental)	0	0
c. Cash and other Monetary Assets	0	0
d. Inventory, Net	7,940,992	8,686,381
e. Work in Process	0	92
f. Operating Materials, Supplies, Net	22,521	20,730
g. Stockpile Materials, Net	1,470,352	1,596,459
h. Seized Property	0	0
i. Forfeited Property	0	0
j. Goods Held Under Price Support and Stabilization Programs, Net	0	0
k. Property, Plant, and Equipment	639,714	638,668
l. Other Entity Assets	255,285	303,759
<b>m. Total Entity Assets</b>	<b>\$ 13,027,753</b>	<b>\$ 13,796,185</b>
<b>2. Non-Entity Assets:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1). Fund Balances with Treasury	18,290	12,984
(2). Accounts Receivable, Net	0	0
(3). Interest Receivable, Net	0	0
(4). Other	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1). Accounts Receivable, Net	0	0
(2). Interest Receivable, Net	0	0
(3). Other	0	0
c. Cash and Other Monetary Assets	0	0
d. Other Non-Entity Assets	45,685	60,342
<b>e. Total Non-Entity Assets</b>	<b>63,975</b>	<b>73,326</b>
<b>3. Total Assets</b>	<b>\$ 13,091,728</b>	<b>\$ 13,869,511</b>

# CONSOLIDATED STATEMENTS

Department of Defense

Defense Logistics Agency Defense Business Operations Fund

## CONSOLIDATED

Statements of Financial Position

as of September 30, 1995

(in thousands)

	1995	1994
<b>LIABILITIES</b>		
<b>4. Liabilities Covered by Budgetary Resources:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1). Accounts Payable	\$ 930,492	\$ 765,502
(2). Interest Payable	0	0
(3). Debt	0	0
(4). Other Federal (Intragovernmental) Liabilities	202,013	247,059
b. Transactions with Non-Federal (Governmental) Entities:	0	0
(1). Accounts Payable	934,949	702,542
(2). Accrued Payroll and Benefits	0	0
(a) Salaries and Wages	30,050	28,311
(b) Annual Accrued Leave	0	0
(c) Severance Pay and Separation Allowance	0	0
(3). Interest Payable	0	0
(4). Liabilities for Loan Guarantees	0	0
(5). Lease Liabilities	0	0
(6). Pension and Other Actuarial Liabilities	0	0
(7). Other Non-Federal (Governmental) Liabilities	1,620	3,372
<b>c. Total Liabilities Covered by Budgetary Resources:</b>	<b>\$ 2,099,124</b>	<b>\$ 1,746,786</b>
<b>5. Liabilities not Covered by Budgetary Resources:</b>		
a. Transactions with Federal (Intragovernmental) Entities:		
(1). Accounts Payable	18,290	12,985
(2). Debt	0	0
(3). Other Federal (Intragovernmental) Liabilities	0	0
b. Transactions with Non-Federal (Governmental) Entities:		
(1). Accounts Payable	0	0
(2). Debt	0	0
(3). Lease Liabilities	0	0
(4). Pension and Other Actuarial Liabilities	0	0
(5). Other Non-Federal (Governmental) Liabilities	97,818	274,662
<b>c. Total Liabilities not Covered by Budgetary Resources:</b>	<b>\$ 116,108</b>	<b>\$ 287,647</b>
<b>6. Total Liabilities</b>	<b>\$ 2,215,232</b>	<b>\$ 2,034,433</b>



CONSOLIDATED STATEMENTS

Department of Defense  
Defense Logistics Agency Defense Business Operations Fund  
**CONSOLIDATED**  
Statements of Financial Position  
as of September 30, 1995  
(in thousands)

	1995	1994
<b>NET POSITION</b>		
<b>7. Balances:</b>		
a. Unexpended Appropriations	0	0
b. Invested Capital	23,402,216	21,819,741
c. Cumulative Results of Operations	(7,324,964)	(5,212,268)
d. Other	(5,084,648)	(4,484,748)
e. Future Funding Requirements	(116,108)	(287,647)
<b>f. Total Net Position</b>	<b>\$ 10,876,496</b>	<b>\$ 11,835,078</b>
<b>8. Total Liabilities and Net Position</b>	<b>\$ 13,091,728</b>	<b>\$ 13,869,511</b>

## CONSOLIDATED STATEMENTS

Department of Defense

Defense Logistics Agency Defense Business Operations Fund

### CONSOLIDATED

Statements of Operations (and change to Net Position)


as of September 30, 1995

(in thousands)

	1995	1994
<b>REVENUES AND FINANCING SOURCES</b>		
1. Appropriated Capital Used	\$ 0	\$ 0
2. Revenues from Sales of Goods and Services		
a. To the Public	513,195	417,610
b. Intragovernmental	12,666,775	12,505,372
3. Interest and Penalties, Non-Federal	0	0
4. Interest, Federal	0	0
5. Taxes	0	0
6. Other Revenue and Financing Sources	151,411	71,463
7. Less: Taxes and Receipts Transferred to the Treasury or Other Agencies	0	0
<b>8. Total Revenue and Financing Sources</b>	<b>\$ 13,331,380</b>	<b>\$ 12,994,444</b>
<b>EXPENSES</b>		
9. Program or Operation Expenses	4,742,519	4,672,264
10. Cost of Goods Sold		
a. To the Public	165,257	163,166
b. Intragovernmental	8,137,381	8,247,344
11. Depreciation and Amortization	56,298	76,041
12. Bad Debts and Write-offs	38	665
13. Interest		
a. Federal Financing Bank/Treasury Borrowing	0	0
b. Federal Securities	0	0
c. Other	0	0
14. Other Expenses	1,744,059	1,651,043
<b>15. Total Expenses</b>	<b>\$ 14,845,552</b>	<b>\$ 14,810,523</b>
16. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses Before Extraordinary Items	(1,514,171)	(1,816,078)
17. Plus (Minus) Extraordinary Items	0	0
18. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(\$ 1,514,171)	(\$ 1,816,078)
19. Net Position, Beginning Balance, as Previously Stated	11,835,078	12,705,178
20. Adjustments	(418,277)	150,070
21. Net Position, Beginning Balance, As Restated	\$ 11,416,801	\$ 12,855,248
22. Excess (Shortage) of Revenues and Financing Sources Over Total Expenses	(1,514,171)	(1,816,078)
23. Plus (Minus) Non-Operating Changes	973,866	795,908
<b>24. Net Position, Ending Balance</b>	<b>\$ 10,876,496</b>	<b>\$ 11,835,078</b>

NOTE: There are immaterial rounding differences due to carrying individual balances in cents.



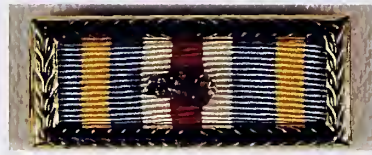


*"The Defense Logistics Agency (DLA) is a unique national asset. DLA is leading the way in the logistics revolution that is critical in helping keep our forces combat ready—now, and in the years ahead. It continues to provide superb readiness support while pursuing numerous innovations which are returning billions of dollars to the warfighters and taxpayers."*

Honorable William J. Perry  
Secretary of Defense

*"As USS NIMITZ (CVN 68) begins its deployment, we thank all concerned for significant and tireless expediting efforts...the extra visibility, priority and customer service provided to NIMITZ within DLA was crucial...the responsiveness of your weapons system management shops, product/business/commodity centers, and emergency supply operations centers was truly gratifying. Well done."*

Vice Admiral R.J. Spane, USN  
Commander, Naval Air Force, Pacific Fleet



### Joint Meritorious Unit Award

On 8 March 1996, Secretary of Defense, The Honorable William J. Perry awarded the Defense Logistics Agency the Joint Meritorious Unit Award for extraordinary savings, achieved from 17 February 1994 to 1 October 1995, that supported the National interest. *"As a consequence of those savings, DLA's actions directly improved the readiness of the Military Services while attaining \$6.3 billion in savings for the Department of Defense. By their exemplary performance of duty, the members of the Defense Logistics Agency have brought great credit to themselves and to the Department of Defense."*

The Bronze Oak Leaf Cluster, centered on the award ribbon above, represents a second and subsequent entitlement of this award. The Defense Logistics Agency's (DLA) initial Joint Meritorious Unit Award was approved on 1 October 1991, by the then Secretary of Defense Dick Cheney. The award was presented to the then Director of DLA, Lt Gen Charles McCausland, USAF, in a ceremony recognizing DLA for "spearheading the largest, most complicated logistics operation in military history. DLA achieved unprecedented success in its efforts to supply and sustain more than half a million soldiers, sailors, airmen, and marines on station, ten thousand miles from home, for over seven months."



## DEFENSE LOGISTICS AGENCY

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